

CITY OF ELKADER

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2009

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CITY OF ELKADER
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Garms	Mayor	Jan. 2012
Betty Landis	Mayor Pro tem	Jan. 2010
Daryl Koehn	Council Member	Jan. 2010
Roger Buchholz	Council Member	Jan. 2010
Ken Seney	Council Member	Jan. 2012
Rob Frieden	Council Member	Jan. 2012
Jennifer Cowsert	City Administrator/Clerk	Indefinite
Marla Reimer	Assistant Administrator/ Deputy Clerk	Indefinite
John Gnagy	City Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elkader, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elkader's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund

information of the City of Elkader as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2010 on our consideration of the City of Elkader's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Elkader's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2008, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

May 24, 2010



Dietz, Donald & Company, CPAs
FEIN 42-1172392

City of Elkader

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elkader provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. Please keep in mind, however, that information for the fiscal year ended June 30, 2008 has not been subjected to audit.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 38.3%, or approximately \$ 724,000, from fiscal 2008 to fiscal 2009. Property tax increased approximately \$ 65,000, bond and note proceeds increased \$ 27,000, and proceeds from FEMA disaster grants increased \$ 731,000.
- Disbursements of the City's governmental activities decreased 0.7% or approximately \$ 18,000 in fiscal 2009 from fiscal 2008. Public safety and community and economic development disbursements increased approximately \$ 991,000 and \$ 94,000, respectively, while capital projects disbursements decreased \$ 1,139,000
- The City's total cash basis net assets increased over 37.6%, or approximately \$ 187,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$ 134,000 and the assets of the business type activities increased approximately \$ 53,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.



The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the waterworks and the sanitary sewer system.

These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, [c] the Debt Service Fund, [d] the Capital Projects Funds and [e] the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statement for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$ 294,000 to \$ 428,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Years Ended June 30,	
	2009	2008
Receipts		
Program receipts		
Charges for service	\$ 311	315
Operating grants, contributions, and restricted interest	885	129

Capital grants, contributions, and restricted interest	99	314
General receipts		
Property tax	682	617
Local option sales tax	98	106
Franchise tax	44	46
Unrestricted interest on investments	6	18
Bond and note proceeds	305	278
Other general receipts	184	67
Total receipts	<u>2,614</u>	<u>1,890</u>
Disbursements		
Public safety	1,208	218
Public works	373	406
Health and social services	0	3
Culture and recreation	321	264
Community and economic development	157	63
General government	155	126
Debt service	183	197
Capital projects	88	1,226
Total disbursements	<u>2,485</u>	<u>2,503</u>
Change in cash basis net assets before transfers	129	(613)
Transfers, net	<u>5</u>	<u>79</u>
Change in cash basis net assets	134	(534)
Cash basis net assets beginning of year	<u>294</u>	<u>828</u>
Cash basis net assets end of year	<u>\$ 428</u>	<u>294</u>

The City's total receipts for governmental activities increased 38.3% or approximately \$ 724,000. The total cost of all programs and services decreased by approximately \$ 18,000, or 0.7%. Capital project spending decreased approximately \$ 1,138,000, while public safety disbursements increased approximately \$ 990,000, primarily a result of the June, 2008 flood. Receipts for 2009 increased primarily due to FEMA grants of approximately \$ 731, 000 received to help defray costs of the June, 2008 flood.

City property tax receipts increased approximately \$ 65,000 in 2009. Property taxes are budgeted to increase approximately \$ 20,000 in 2010.

The cost of all governmental activities this year was \$ 2.485 million compared to \$ 2.503 million last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 1.190 million because some of the cost was paid by those directly benefited from the programs (\$ 311,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 984,000). Overall, in 2009, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 1.890 million to approximately \$ 2.614 million, principally due to receiving FEMA grant proceeds. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 824,000 in tax (some of which could only be used for certain programs) and with other receipts, such as bond and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2009	2008
Receipts		
Program receipts		
Charges for service		
Water	\$ 390	396
Sewer	431	305
General receipts		
Unrestricted interest on investments	8	10
Bond and note proceeds	444	0
Miscellaneous	2	6
Total receipts	<u>1,275</u>	<u>717</u>
Disbursements		
Water	487	164
Sewer	730	505
Total disbursements	<u>1,217</u>	<u>669</u>
Change in cash basis net assets before transfers	58	48
Transfers, net	<u>(5)</u>	<u>(79)</u>
Change in cash basis net assets	53	(31)
Cash basis net assets beginning of year	<u>203</u>	<u>234</u>
Cash basis net assets end of year	<u>\$ 256</u>	<u>203</u>

Total business type activities receipts for the fiscal year were \$ 1.275 million compared to \$ 717,000 last year. The significant increase was due primarily to receipt of \$ 444,000 in state revolving loan funds. Total disbursements for the year increased by \$ 548,000 due mainly to continuing work on the City sewer improvement project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elkader completed the year, its governmental funds reported a combined fund balance of \$ 428,427, an increase of nearly \$ 134,000 above last year's total of \$ 294,464. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$ 29,869 from the prior year to \$ 140,147. This amount approximated the City share of disaster disbursements for 2009.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for projects within the City's urban renewal districts. At the end of the fiscal year, the cash balance was \$ 68,758, an increase of \$ 31,962 from the previous year.
- The Special Revenue, Local Option Sales Tax Fund was established to account for the use of local option sales tax. At the end of the fiscal year, the cash balance was \$ 122,117, an increase of \$ 37,920. During the fiscal year ended June 30, 2009, \$ 81,897 was spent on community and economic development
- The Permanent Cemetery Perpetual Care Fund had a cash balance of \$ 52,163 at June 30, 2009, a decrease of \$ 10,173. A total of \$ 22,203 was spent on cemetery improvement projects during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 96,009 to \$ 30,368 due primarily to debt service payments during the year of \$ 156,317.

The Sewer Fund cash balance increased by \$ 149,030 to \$ 226,008 due to an increase in sewer rates, which increased sewer revenues by \$ 125,853 and note proceeds exceeding construction costs by \$ 35,613.

BUDGETARY HIGHLIGHTS

The City amended its budget once during fiscal 2009. The amendment was approved on May 26, 2009 and resulted in an increase in disbursements of \$ 1,028,200. Over 86% of this increase related to the cost of the June, 2008 flood.

The City's receipts were \$ 167,509 less than budgeted, primarily due to decreases in water and sewer revenue due to the June, 2008 flood.

Total disbursements were \$ 308,521 less than the amended budget. The actual disbursements for the business type activities function were \$ 318,265 more than budgeted. The sewer capital project was not included in the budget and \$ 408,351 was disbursed for the year.

Additionally, the City exceeded the amounts budgeted in the public safety, culture and recreation and general government functions. Not all flood disbursements were accounted for in the budget amendment, and the cemetery perpetual care and library trust are not included in the budget process.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$ 4,858,657 in long-term debt outstanding, compared to \$ 4,830,530 last year, as shown in the following.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2009	2008
General Obligation Notes	\$ 1,595	1,730
Revenue Notes	3,189	3,017
Loan payable	75	84
Total	<u>\$ 4,859</u>	<u>4,831</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1,669,693 is significantly less than its constitutional debt limit of \$ 2,912,936. However, the City has outstanding development agreements of \$ 185,292 which brings its constitutional debt to \$ 1,854,985 still less than the \$ 2,912,936 debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Elkader's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees that will be charged for

various City activities. The City incurred major flood damage in June, 2008. Although most infrastructure damage was paid by federal and state grants, the buyout of approximately 25 homes will negatively impact the City's tax base and water and sewer billings. Over the last 40 years, population has stagnated, decreasing approximately 8% over that time. The City has begun construction on a mechanical wastewater treatment plant which is anticipated to cost approximately \$ 5 million. Although the City is reviewing all possible avenues of financing, certainly there will continue to be upward pressure on water and sewer rate.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$ 8.989 million, an increase of 171% from the amended fiscal 2009 budget. Property taxes are budgeted to increase \$ 21,298. The tax levy rate increased 5.0%. Loan and grants are budgeted to increase by \$ 5.235 million. Disbursements are budgeted to increase by approximately \$ 5.147 million as the majority of the wastewater treatment plant is expected to be completed in 2010.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 500,000 by the close of 2010.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jennifer Cowsert, City Administrator and Clerk, 207 North Main Street, Elkader, Iowa 52043-0427.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF ELKADER
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2009

	Disbursements	Charges for Service	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 1,208,410	24,315	737,764	-	(446,331)	-	(446,331)
Public works	373,278	162,183	129,256	-	(81,839)	-	(81,839)
Culture and recreation	320,933	115,217	13,385	-	(192,331)	-	(192,331)
Community and economic development	157,276	-	-	-	(157,276)	-	(157,276)
General government	154,674	9,488	4,400	-	(140,786)	-	(140,786)
Debt service	182,907	-	-	-	(182,907)	-	(182,907)
Capital projects	87,640	-	-	99,513	11,873	-	11,873
Total governmental activities	2,485,118	311,203	884,805	99,513	(1,189,597)	-	(1,189,597)
Business type activities:							
Water	486,764	389,620	-	-	-	(97,144)	(97,144)
Sewer	730,427	431,152	-	-	-	(299,275)	(299,275)
Total business type activities	1,217,191	820,772	-	-	-	(396,419)	(396,419)
Total	\$ 3,702,309	1,131,975	884,805	99,513	(1,189,597)	(396,419)	(1,586,016)
General Receipts:							
Property and other city tax levied for:					408,412	-	408,412
General purposes					103,010	-	103,010
Debt service					170,619	-	170,619
Tax increment financing					98,008	-	98,008
Local option sales tax					44,342	-	44,342
Franchise fee					5,581	7,625	13,206
Interest on investments					117,251	-	117,251
Insurance claims and refunds					304,526	443,964	748,490
Bond and note proceeds					67,104	2,558	69,662
Miscellaneous					4,707	(4,707)	-
Transfers					1,323,560	449,440	1,773,000
Total general receipts and transfers					133,963	53,021	186,984
Change in cash basis net assets					294,464	203,355	497,819
Cash basis net assets beginning of year					\$ 428,427	256,376	684,803
Cash basis net assets end of year							
Cash Basis Net Assets							
Restricted:					\$ 68,758	-	68,758
Urban renewal purposes					52,163	-	52,163
Cemetery					38,760	-	38,760
Library					141,248	-	141,248
Other					127,498	256,376	383,874
Unrestricted					\$ 428,427	256,376	684,803
Total cash basis net assets							

See notes to financial statements.

CITY OF ELKADER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2009

	Special Revenue				Nonmajor	Total
	General	Tax Increment	Urban Renewal	Local Option Sales Tax		
Receipts:						
Property tax	\$ 259,254	-	-	-	247,862	507,116
Tax increment financing	-	170,619	-	-	-	170,619
Other city tax	44,342	-	-	98,008	-	142,350
Licenses and permits	6,202	-	-	-	-	6,202
Use of money and property	11,282	-	-	-	955	14,122
Intergovernmental	813,792	-	-	-	1,048,706	1,048,706
Charges for service	232,435	-	-	-	-	232,435
Special assessments	2,158	-	-	-	-	2,158
Miscellaneous	41,041	-	-	21,809	-	186,140
Total receipts	1,410,506	170,619	-	119,817	119,290	2,309,848
Disbursements:						
Operating:						
Public safety	1,172,776	-	-	-	35,634	1,208,410
Public works	181,284	-	-	-	191,994	373,278
Culture and recreation	268,505	-	-	-	30,225	320,933
Community and economic development	-	75,379	-	81,897	-	157,276
General government	132,485	-	-	-	22,189	154,674
Debt service	-	-	-	-	182,907	182,907
Capital projects	-	-	-	-	87,640	87,640
Total disbursements	1,755,050	75,379	-	81,897	550,589	2,485,118
Excess (deficiency) of receipts over (under) disbursements	(344,544)	95,240	-	37,920	(10,173)	(175,270)
Other financing sources (uses):						
Bond and note proceeds	304,526	-	-	-	63,278	304,526
Operating transfers in	10,149	-	-	-	(5,442)	73,427
Operating transfers out	-	(63,278)	-	-	-	(68,720)
Total other financing sources (uses)	314,675	(63,278)	-	-	57,836	309,233
Net change in cash balances	(29,869)	31,962	-	37,920	(10,173)	133,963
Cash balances beginning of year	170,016	36,796	-	84,197	(58,881)	294,464
Cash balances end of year	\$ 140,147	68,758	-	122,117	45,242	428,427
Cash Basis Fund Balances						
Reserved for debt service	\$ -	-	-	-	(14,889)	(14,889)
Unreserved:						
General fund	140,147	-	-	-	-	140,147
Special revenue funds	-	68,758	-	122,117	57,891	248,766
Capital projects funds	-	-	-	-	2,240	2,240
Permanent fund	-	-	-	-	52,163	52,163
Total cash basis fund balances	\$ 140,147	68,758	-	122,117	45,242	428,427

See notes to financial statements.

CITY OF ELKADER
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 389,620	431,152	820,772
Operating disbursements:			
Business type activities	330,447	221,475	551,922
Excess of operating receipts over operating disbursements	59,173	209,677	268,850
Non-operating receipts (disbursements):			
Interest on investments	1,135	6,490	7,625
Miscellaneous	2,558	-	2,558
Note proceeds	-	443,964	443,964
Debt service	(156,317)	(100,601)	(256,918)
Capital projects	-	(408,351)	(408,351)
Net non-operating receipts (disbursements)	(152,624)	(58,498)	(211,122)
Excess (deficiency) of receipts over (under) disbursements	(93,451)	151,179	57,728
Operating transfers out	(2,558)	(2,149)	(4,707)
Net change in cash balances	(96,009)	149,030	53,021
Cash balances beginning of year	126,377	76,978	203,355
Cash balances end of year	\$ 30,368	226,008	256,376

See notes to financial statements.

CITY OF ELKADER

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Elkader is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elkader has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and Clayton County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement cost not paid from other funds.

The Special Revenue, Urban Renewal Tax Increment Fund is used to account

for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Special Revenue, Local Option Sales Tax Fund is used to account for local option sales tax collections and to assure that they are disbursed in accordance with voter wishes.

The Permanent, Cemetery Perpetual Care Fund is used to account for County funds and lot sales and cemetery improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Elkader maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipts) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Loans		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 160,000	65,693	326,000	95,669	486,000	161,362
2011	179,337	60,160	336,000	85,889	515,337	146,049
2012	184,336	54,015	226,964	75,809	411,300	129,824
2013	164,337	47,400	138,000	69,000	302,337	116,400
2014	169,336	41,318	142,000	64,860	311,336	106,178
2015-19	652,347	105,915	776,000	257,880	1,428,347	363,795
2020-24	160,000	15,983	900,000	134,220	1,060,000	150,203
2025-27	0	0	344,000	17,010	344,000	17,010
Total	\$ 1,669,693	390,484	3,188,964	800,337	4,858,657	1,190,821

The December 3, 2008 revenue notes were issued from the State Revolving Fund of Iowa Finance Authority. At June 30, 2009, the City had \$ 5,001,036 remaining on their \$ 5,500,000 line of credit with Iowa Finance Authority.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; PO Box 9117; Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contribution to IPERS for the year ended June 30, 2009 was \$ 25,601, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and personal hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized by the City until used or paid. The City's approximate liability for earned vacation, sick leave, and personal payments payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 21,000
Sick leave	19,000
Personal days	3,000
Comp time	<u>1,000</u>
Total	<u>\$ 44,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 5,442
	Enterprise:	
	Water	2,558
	Sewer	<u>2,149</u>
		10,149
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	<u>63,278</u>
Total		<u>\$ 73,427</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. The City incurred significant damage from the Turkey River flood of June, 2008. To date the City has received federal grant money of \$ 730,737. Additional expenses will be incurred and additional federal and state grants are anticipated to help defray these expenses. The City portion of the disaster expenses has yet to be determined.

(8) Deficit Balance

The Debt Service Fund had a deficit balance of \$ 14,889 at June 30, 2009. The deficit balance was a result of paying for a larger portion of the August 1, 2006 Sewer Construction debt service than originally budgeted. The deficit will be eliminated with transfers.

(9) Development Agreements

The City has entered into four development agreements to assist various urban renewal projects.

With the first agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for certain public improvements related to the development of a manufacturing facility in the City industrial park made by the developer. The incremental tax to be received by the City under Chapter 403.19 of

the Code of Iowa from the developer will be rebated for a period of ten years beginning July 1, 2005. The total to be paid by the City under this agreement is not to exceed \$ 500,000. During the year ended June 30, 2009, the City rebated \$ 58,297 of incremental tax under this agreement. The maximum remaining balance at June 30, 2009, was \$ 176,892.

With the second agreement, the City has agreed to rebate \$ 8,400 annually of the incremental tax paid by the developer in exchange for certain public improvements related to the development of a campground adjacent to the City park made by the developer. The incremental tax to be received by the City will be rebated for a period of five years beginning July 1, 2005. The total to be paid by the City under this agreement will be \$ 42,000. During the year ended June 30, 2009, the City rebated \$ 8,400 of incremental tax under this agreement. The remaining balance at June 30, 2009 was \$ 8,400.

With the third agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for construction of duplex apartments by the developer on land located in the City. The incremental tax received by the City from the developer will be rebated for a period of three years beginning December 1, 2012 and continuing through and including June 1, 2015.

With the fourth agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for the construction of an industrial facility by the developer within the Elkader Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa will be rebated for a period of ten years beginning December 1, 2010, and continuing through and including June 1, 2020, or until such earlier date upon which payments equal to \$ 750,000 have been made. The payments shall not constitute a general obligation of the City and shall be subject to annual appropriation of the City Council.

(10) Commitments and Contingencies

Construction Contracts - The City has entered into four construction contracts with outstanding balances of \$ 3,687,562 at June 30, 2009. These contracts will be financed with the remaining \$ 5,001,036 line of credit from the State Revolving Fund and FEMA flood recovery grants of approximately \$ 154,500.

Guaranty Agreement - The City is a co-guarantor with several Elkader businesses on a term loan from the United States Department of Agriculture, Rural Development to a nonprofit organization that provides day care services to the community. The loan is secured by a first mortgage on the real estate owned by the nonprofit organization. This guaranty would require the City to make the required loan payments. As of June 30, 2009, the guaranteed loan balance was \$ 192,500 and the nonprofit organization was current with the required payments.

(11) Subsequent Events

The City purchased an end loader in July, 2009 for \$ 100,670 and a police car for \$ 20,542 in February, 2010. The City issued general obligation notes to cover the cost of these purchases.

In May, 2010, the City entered into a construction contract for \$ 717,815. This contract will be financed as follows: 47% USDA grant and 53% USDA revenue notes.

In October, 2009, the City approved a change order in an existing construction contract for \$ 140,000 which will be financed with a FEMA flood recovery grant.

The City entered into contracts for street work in the summer of 2009 totaling \$ 72,094 which was financed with Road Use Tax monies.

In March, 2010, the City approved issuance of \$ 120,000 of general obligation notes for the construction of a new emergency services building. It is anticipated that fund raisers in the service area will negate the need for most, if not all, of this financing.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELKADER
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2009

	Governmental Funds	Proprietary Funds		Budgeted Amounts		
	Actual	Actual	Total	Original	Final	Final to Total Variance
Receipts:						
Property tax	\$ 507,116	-	507,116	485,808	485,808	21,308
Tax increment financing	170,619	-	170,619	181,500	181,500	(10,881)
Other city tax	142,350	-	142,350	158,581	158,581	(16,231)
Licenses and permits	6,202	-	6,202	5,600	5,600	602
Use of money and property	14,122	7,625	21,747	21,947	21,947	(200)
Intergovernmental	1,048,706	-	1,048,706	215,054	1,015,054	33,652
Charges for service	232,435	820,772	1,053,207	1,172,732	1,172,732	(119,525)
Special assessments	2,158	-	2,158	290	290	1,868
Miscellaneous	186,140	2,558	188,698	49,800	266,800	(78,102)
Total receipts	2,309,848	830,955	3,140,803	2,291,312	3,308,312	(167,509)
Disbursements:						
Public safety	1,208,410	-	1,208,410	220,194	1,100,194	(108,216)
Public works	373,278	-	373,278	364,843	376,843	3,565
Health and social services	-	-	-	2,930	2,930	2,930
Culture and recreation	320,933	-	320,933	283,259	283,259	(37,674)
Community and economic development	157,276	-	157,276	245,546	245,546	88,270
General government	154,674	-	154,674	117,384	132,984	(21,690)
Debt service	182,907	-	182,907	182,506	183,106	199
Capital projects	87,640	-	87,640	50,000	170,000	82,360
Business type activities	-	1,217,191	1,217,191	898,926	898,926	(318,265)
Total disbursements	2,485,118	1,217,191	3,702,309	2,365,588	3,393,788	(308,521)
(Deficiency) of receipts (under) disbursements	(175,270)	(386,236)	(561,506)	(74,276)	(85,476)	(476,030)
Other financing sources, net	309,233	439,257	748,490	-	-	748,490
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	133,963	53,021	186,984	(74,276)	(85,476)	272,460
Balances beginning of year	294,464	203,355	497,819	751,593	751,593	(253,774)
Balances end of year	428,427	256,376	684,803	677,317	666,117	18,686

See accompanying independent auditor's report and notes to required supplementary information budgetary reporting.

CITY OF ELKADER
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2009, one budget amendment increased budgeted disbursements by \$ 1,028,200. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF ELKADER
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2009

	Special Revenue					Capital Projects		
	Road Use Tax	Employee Benefits	Emergency	Library Trust	Debt Service	Keystone Bridge	High Street	Total
Receipts:								
Property tax	\$ -	139,410	5,442	-	103,010	-	-	247,862
Use of money and property	-	-	-	955	-	-	-	955
Intergovernmental	129,256	-	-	-	-	99,513	-	228,769
Miscellaneous	-	690	-	4,841	-	110,050	3,709	119,290
Total receipts	129,256	140,100	5,442	5,796	103,010	209,563	3,709	596,876
Disbursements:								
Operating:								
Public safety	-	35,634	-	-	-	-	-	35,634
Public works	135,950	56,044	-	-	-	-	-	191,994
Culture and recreation	-	23,628	-	6,597	-	-	-	30,225
General government	-	22,189	-	-	-	-	-	22,189
Debt service	-	-	-	-	182,907	-	-	182,907
Capital projects	-	-	-	-	-	85,706	1,934	87,640
Total disbursements	135,950	137,495	-	6,597	182,907	85,706	1,934	550,589
Excess (deficiency) of receipts over (under) disbursements	(6,694)	2,605	5,442	(801)	(79,897)	123,857	1,775	46,287
Other financing sources (uses):								
Operating transfers in	-	-	-	-	63,278	-	-	63,278
Operating transfers out	-	-	(5,442)	-	-	-	-	(5,442)
Total other financing sources (uses)	-	-	(5,442)	-	63,278	-	-	57,836
Net change in cash balances	(6,694)	2,605	-	(801)	(16,619)	123,857	1,775	104,123
Cash balances beginning of year	8,238	14,982	-	39,561	1,730	(123,576)	184	(58,881)
Cash balances end of year	\$ 1,544	17,587	-	38,760	(14,889)	281	1,959	45,242
Cash Basis Fund Balances	\$ -	-	-	-	(14,889)	-	-	(14,889)
Reserved for debt service	-	-	-	-	-	-	-	-
Unreserved:								
Special revenue funds	1,544	17,587	-	38,760	-	-	-	57,891
Capital projects	-	-	-	-	-	281	1,959	2,240
Total cash basis fund balances	\$ 1,544	17,587	-	38,760	(14,889)	281	1,959	45,242

See accompanying independent auditor's report.

Schedule 2

CITY OF ELKADER
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
2004 General obligation refunding	Nov 1, 2004	3.05%	\$ 365,000	60,000	-	60,000	-	1,830
2004 TIF refunding	Nov 1, 2004	3.05-4.40%	1,110,000	990,000	-	25,000	965,000	38,278
2004 Water revenue refunding	Nov 1, 2004	3.05-3.65%	170,000	90,000	-	20,000	70,000	3,035
Sewer construction	Aug 1, 2006	4.15-4.95%	620,000	590,000	-	30,000	560,000	26,998
				<u>\$ 1,730,000</u>	<u>-</u>	<u>135,000</u>	<u>1,595,000</u>	<u>70,141</u>
Revenue notes:								
Water	Mar 8, 2005	3.00%	\$ 1,935,000	1,701,000	-	78,000	1,623,000	51,030
Sewer	Nov 2, 2006	3.00%	1,150,000	1,111,000	-	44,000	1,067,000	33,330
Wastewater treatment plant plan and design	Feb 11, 2008	0%	405,000	204,500	172,882	377,382	-	-
Wastewater treatment plant	Dec 3, 2008	3.00%	5,500,000	0	498,964	0	498,964	6,744
				<u>\$ 3,016,500</u>	<u>671,846</u>	<u>499,382</u>	<u>3,188,964</u>	<u>91,104</u>
Loan payable:								
Clayton County Secondary Roads	May 28, 2008	0%	93,366	\$ 84,030	-	9,337	74,693	-

See accompanying independent auditor's report.

Schedule 3

CITY OF ELKADER
BOND AND NOTE MATURITIES
June 30, 2009

Year Ending June 30,	General Obligation Bonds			Total
	Urban Renewal Tax Increment Financing (TIF) Refunding Issued Nov 1, 2004	Water Revenue Refunding Issued Nov 1, 2004	Sewer Construction Issued Aug 1, 2006	
	Interest Rates	Interest Rates	Interest Rates	
2010	3.25%	3.25%	4.20%	160,000
2011	3.45	3.45	4.25	170,000
2012	3.65	3.65	4.30	175,000
2013	3.80	3.65	4.35	155,000
2014	3.95	—	4.40	160,000
2015	4.10	—	4.45	165,000
2016	4.25	—	4.50	170,000
2017	4.40	—	4.50	185,000
2018	—	—	4.60	45,000
2019	—	—	4.70	50,000
2020	—	—	4.80	50,000
2021	—	—	4.85	55,000
2022	—	—	4.90	55,000
2022	—	—	4.95	55,000
Total		\$ 965,000	\$ 560,000	1,595,000

Year Ending June 30,	General Obligation Loan Payable		
	Clayton County Secondary Roads Issued May 28, 2008	Interest Rates	Amount
	Interest Rates	Interest Rates	Amount
2010	0%	0%	0
2011	0	0	9,337
2012	0	0	9,336
2013	0	0	9,337
2014	0	0	9,336
2015	0	0	9,337
2016	0	0	9,336
2017	0	0	9,337
2018	0	0	9,337
Total			\$ 74,693

(continued)

Schedule 3
(continued)

CITY OF ELKADER
BOND AND NOTE MATURITIES
June 30, 2009

Year Ending June 30,	Revenue Notes			Total
	Water	Sewer	Wastewater Treatment Plant	
	Issued Mar 8, 2005 Interest Rates	Issued Nov 2, 2006 Interest Rates	Issued Dec 3, 2008 Interest Rates	
2010	3.00% \$ 81,000	3.00% \$ 46,000	3.00% \$ 199,000	326,000
2011	3.00 83,000	3.00 47,000	3.00 206,000	336,000
2012	3.00 85,000	3.00 48,000	3.00 93,964	226,964
2013	3.00 88,000	3.00 50,000	-	138,000
2014	3.00 91,000	3.00 51,000	-	142,000
2015	3.00 93,000	3.00 53,000	-	146,000
2016	3.00 96,000	3.00 54,000	-	150,000
2017	3.00 99,000	3.00 56,000	-	155,000
2018	3.00 102,000	3.00 58,000	-	160,000
2019	3.00 105,000	3.00 60,000	-	165,000
2020	3.00 108,000	3.00 61,000	-	169,000
2021	3.00 112,000	3.00 63,000	-	175,000
2022	3.00 115,000	3.00 65,000	-	180,000
2023	3.00 118,000	3.00 67,000	-	185,000
2024	3.00 122,000	3.00 69,000	-	191,000
2025	3.00 125,000	3.00 71,000	-	196,000
2026	-	3.00 73,000	-	73,000
2027	-	3.00 75,000	-	75,000
Total	\$ 1,623,000	\$ 1,067,000	\$ 498,964	3,188,964

See accompanying independent auditor's report.

CITY OF ELKADER
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2009

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
<u>Indirect:</u>			
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR1A	\$ 1,009,899
Hazard Mitigation Grants	97.039	HMGP-DR-1688-0017-01	<u>3,900</u>
Total			<u>\$ 1,013,799</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Elkader and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elkader, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated May 24, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Elkader's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Elkader's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elkader's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions,

to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Elkader's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Elkader's financial statements that is more than inconsequential will not be prevented or detected by the City of Elkader's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Elkader's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkader's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Elkader's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Elkader's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the

officials, employees, and citizens of the City of Elkader and other parties to whom the City of Elkader may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elkader during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Dietz, Donald & Company".

Dietz, Donald & Company, CPAs
FEIN 42-1172392

Elkader, Iowa

May 24, 2010

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Elkader, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The City of Elkader's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Elkader's management. Our responsibility is to express an opinion on the City of Elkader's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 required that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Elkader's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Elkader's compliance with those requirements.

In our opinion, the City of Elkader complied, in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Elkader is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Elkader's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elkader's internal control over compliance,

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Elkader and other parties to whom the City of Elkader may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

May 24, 2010


Dietz, Donald & Company, CPAs
FEIN 42-1172392

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CITY OF ELKADER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part I: Summary of the Independent Auditor's Results:

- [1] Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles; because we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008.
- [2] No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- [3] The audit did not disclose any non-compliance which is material to the financial statements.
- [4] No significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements.
- [5] An unqualified opinion was issued on compliance with requirements applicable to the major program.
- [6] The audit disclosed no findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- [7] The major program was CFDA Number 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters).
- [8] The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- [9] The City of Elkader did not qualify as a low-risk auditee.

CITY OF ELKADER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE;

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

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CITY OF ELKADER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 **Certified Budget** - Disbursements during the year ended June 30, 2009, exceeded the amounts budgeted in the public safety, culture and recreation, general government, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We did amend the budget in May, however, the amounts of the increases and the functions amended were apparently not correct. We will take more care when amending the budget in the future.

Conclusion - Response accepted.

IV-B-09 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-09 **Travel Expenses** - No disbursements of City money for travel expenses of spouses of City officials were noted.

IV-D-09 **Business Transactions** - No business transactions between the City and City officials or employees were noted.

IV-E-09 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-09 **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-09 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

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IV-H-09 **Revenue Bonds** - The City has complied with the provisions of the revenue and bond resolutions.

IV-I-09 **Library and Cemetery** - The City accounts for the transactions of the Library and Cemetery in the City's General Fund. However, the Library and Cemetery have separate savings accounts and time certificates of deposit that have not been accounted for or reported by the City in the City's financial statements and reports. We have, however, included these accounts in these financial statements.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose, by a City officer, employee or other person, and which show the receipt, use, and disposition of all City property."

Recommendation - The City's Library and Cemetery should determine the status of the separate accounts for accountability and reporting purposes. If the Library and Cemetery wish to maintain custody and control over the separate accounts, they should be established as legally separate entities from the City, with Articles of Incorporation and by-laws. Otherwise the City should include these accounts in its records, in accordance with Chapter 384.20 of the Code of Iowa. Legal counsel should be consulted for assistance as necessary, to resolve the issue.

Response - We will look into this.

Conclusion - Response accepted.

IV-J-09 **Annual Financial Report** - The 2009 Annual Financial Report submitted to the State does not accurately reflect the ending fund balances recorded in the City's financial records.

Recommendation - The Annual Financial Report should accurately reflect ending fund balances recorded in the City's financial records.

Response - We will use the fund balances from our 2009 audit when preparing the 2010 Annual Financial Report.

Conclusion - Response accepted.